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SUBJECT: KUWAIT REVALUES CURRENCY AGAINST THE DOLLAR

11. (U) On May 11, the Central Bank of Kuwait announced a 1 percent revaluation of the Kuwaiti Dinar against the USD, appreciating the currency from 292 to 289 fils/dollar. A statement issued by the Central Bank Governor's office justified the revaluation as an effort by the CBK to "preserve the purchasing power of the Kuwaiti dinar against the currencies of the trading partners of the State of Kuwait, thereby contributing to the containment of imported inflationary pressures." The revaluation is the first since January 2005.

12. (U) According to recent press reports, Finance Minister Bader Al-Humaidhi applauded the CBK's decision and underscored the importance of protecting the value of GOK investments, stating that "the dollar is weakening against other currencies. If we maintain the dinar at the same level that is going to hurt our investments." He also pointed to inflationary concerns, adding that "it is not good for inflation so for these two reasons we had to revalue the dinar against the dollar."

13. (U) Kuwait's inflation rate rose to 4 percent in 2005, up from 1.3 percent in 2004, due largely to an increase in the price of imported goods and services. The rise was offset by the country's robust financial windfalls from the booming global oil market.

14. (U) The CBK's decision prompted speculation about GCC-wide revaluation (all GCC currencies are pegged to the USD in the run up to the planned 2010 monetary union). However, Saudi Arabia dismissed any speculation that it would follow suit.

15. (U) Private and public sector officials informed Econoff that the move would benefit GOK investments, but would have little long-term economic and financial impact. Ahmad Bastaki from the Kuwait Investment Authority (GOK's main investment agency) quipped that the appreciation "was great for KIA investments" but was very marginal in its overall amount. Randa Azar-Khoury, Chief Economist at the National Bank of Kuwait (country's largest) also noted that the revaluation was "frankly a small move with limited economic and financial impact, but one with perhaps a more significant political message."

16. (U) The Arab Times (local English daily) noted on May 16 that while Kuwaiti exchange companies stood to lose in the short term, third country nationals sending remittances home would benefit from the revaluation.

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